

CITY OF POCAHONTAS, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

City of Pocahontas, Iowa

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City of Pocahontas, Iowa

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City of Pocahontas, Iowa

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|----------------------|---------------------|
| (Before January 2006) | | |
| George Tuttle | Mayor | Jan 2006 |
| Rod Stoulil | Council Member | Nov 2006 |
| John Dewart | Council Member | Jan 2006 |
| Brooks Taylor | Council Member | Jan 2006 |
| Kent Wood | Council Member | Jan 2008 |
| Gus Holzmüller | Council Member | Jan 2008 |
| Greg Fritz | City Administrator | Appointed |
| Joan Dewart | Clerk | Jan 2006 |
| Jeff Johnson | Treasurer | Appointed |
| James W. Hudson | Attorney | Appointed |
| Dr. Dennis Dahl | Airport Commissioner | July 2006 |
| Gary McCarten | Airport Commissioner | July 2006 |
| Dennis Marten | Airport Commissioner | July 2008 |
| Ray Krips | Airport Commissioner | July 2008 |
| Norman Hartsock | Airport Commissioner | July 2009 |
| Nancy Kopriva | Library Trustee | July 2008 |
| Donna Dewart | Library Trustee | July 2008 |
| Jada Hallberg | Library Trustee | July 2008 |
| Walter Cooke | Library Trustee | July 2009 |
| Don Beneke | Library Trustee | July 2005 |
| Dennis Fitzgerald | Library Trustee | July 2005 |
| Charles Ahlrichs | Library Trustee | July 2005 |
| Pat Spangler | Library Trustee | July 2010 |
| Martie Nedved | Library Trustee | July 2010 |

City of Pocahontas, Iowa

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------------------|----------------------|---------------------|
| (After January 2006) | | |
| George Tuttle | Mayor | Jan 2008 |
| Kent Wood | Council Member | Jan 2008 |
| Gus Holzmueler | Council Member | Jan 2008 |
| Rod Stoulil | Council Member | Jan 2010 |
| John Dewall | Council Member | Jan 2010 |
| Brooks Taylor | Council Member | Jan 2010 |
| Greg Fritz | City Administrator | Appointed |
| Joan Dewall | Clerk | Jan 2007 |
| Jeff Johnson | Treasurer | Appointed |
| James W. Hudson | Attorney | Appointed |
| Dennis Marten | Airport Commissioner | July 2008 |
| Ray Krips | Airport Commissioner | July 2008 |
| Ken DeYoung | Airport Commissioner | July 2009 |
| Dr. Dennis Dahl | Airport Commissioner | July 2011 |
| Gary McCarten | Airport Commissioner | July 2011 |
| Nancy Kopriva | Library Trustee | July 2008 |
| Donna Dewall | Library Trustee | July 2008 |
| Jada Hallberg | Library Trustee | July 2008 |
| Walter Cooke | Library Trustee | July 2009 |
| Pat Spangler | Library Trustee | July 2010 |
| Martie Nedved | Library Trustee | July 2010 |
| Don Beneke | Library Trustee | July 2011 |
| Dennis Fitzgerald | Library Trustee | July 2011 |
| Chris Radig | Library Trustee | July 2011 |

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City's primary government listed in the table of contents. These financial statements are the responsibility of the City of Pocahontas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Pocahontas, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Pocahontas Community Hospital, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the cash basis financial position of the reporting of the City of Pocahontas, Iowa as of June 30, 2006 and the changes in cash basis financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Pocahontas, Iowa as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 14, 2006 on our consideration of the City of Pocahontas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 9 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pocahontas' primary government's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government's financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

July 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Pocahontas provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

This is the third year of using new reporting standards. Comparisons to last year's report may help explain the City's financial position and results of operations.

FY 2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's activities included \$2,205,212 in Governmental Funds and \$3,880,845 in Proprietary Funds.
- Disbursements included \$2,001,477 in Governmental Funds and \$3,782,531 in Proprietary Funds.
- The City's total cash basis net assets increased \$302,049. Of this amount, the assets of the governmental activities increased \$203,735 and the assets of the business type activities increased by \$98,314.
- The City issued \$1,291,550 in electric, water, and sewer revenue debt.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending.

The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 1) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the electric, water, and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

| | Year ended June 30, | |
|---|---------------------|-----------|
| | 2006 | 2005 |
| Receipts and Transfers | | |
| Program Receipts: | | |
| Charges for service | 208,712 | 211,102 |
| Operating Grants, contributions and restricted interest | 476,977 | 348,871 |
| General receipts: | | |
| Property tax | 657,519 | 597,468 |
| Local Option Sales Tax | 97,732 | 159,164 |
| Unrestricted interest on investments | 29,791 | 28,489 |
| Other general receipts | 227,481 | 148,760 |
| Transfers, net | 507,000 | 197,000 |
| Total receipts and transfers | 2,205,212 | 1,690,854 |
| Disbursements: | | |
| Public Safety | 226,559 | 245,152 |
| Public Works | 452,681 | 345,215 |
| Culture and Recreation | 174,088 | 188,266 |
| Community and Economic Development | 637,418 | 350,567 |
| General Government | 240,394 | 236,556 |
| Debt Service | 224,455 | 219,784 |
| Capital Projects | 45,882 | 286,398 |

| | | |
|--|-----------|-----------|
| Increase (decrease) in cash basis net assets | 203,735 | (181,084) |
| Cash Basis net assets beginning of year | 903,996 | 1,085,080 |
| Cash basis net assets end of year | 1,107,731 | 903,996 |

Business Type Activities

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for business type activities.

Changes in Cash Basis Net Assets of Business Type Activities

| | Year ended June 30, | |
|---|---------------------|-----------|
| | 2006 | 2005 |
| Receipts and Transfers | | |
| Program Receipts: | | |
| Charges for service: | | |
| Electric | 1,339,649 | 1,176,898 |
| Water | 355,193 | 356,000 |
| Sewer | 267,283 | 272,927 |
| Telecommunications (Internet) | 105,127 | 66,214 |
| Capital grants, contributions and restricted interest | 451,191 | 478,838 |
| Miscellaneous | 45,380 | 76,046 |
| Bond proceeds | 1,317,022 | 1,402,431 |
| | 3,880,845 | |
| Total receipts and transfers | | 3,829,354 |
| Disbursements: | | |
| Electric | 1,606,266 | 1,588,796 |
| Water | 435,188 | 1,864,430 |
| Sewer | 1,144,684 | 319,122 |
| Telecommunications (Internet) | 81,605 | 62,190 |
| Miscellaneous | 7,788 | 62,171 |

| | | |
|---|-----------|-----------|
| | 507,000 | |
| Transfers | | 197,000 |
| | 3,782,531 | |
| Total Disbursements | | 4,093,709 |
| | 98,314 | |
| Increase in cash basis net assets | | (264,355) |
| | 1,035,824 | |
| Cash Basis net assets beginning of year | | 1,300,179 |
| | 1,134,138 | |
| Cash basis net assets end of year | | 1,035,824 |

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BUDGETARY HIGHLIGHTS

In addition to expenditures for normal operating items such as police and fire protection, utility services, snow removal, swimming pool, etc. the City of Pocahontas had several major capital projects underway in FY05-06. These capital projects include an electric generator project, final payment on the new water treatment plant, and improvements to the wastewater treatment plant.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$4,235,132 in bonds and other long-term debt. This debt included \$1,110,000 in General Obligation debt and \$3,125,132 in Electric, Water, and Sewer Revenue Debt. These amounts include \$725,000 of Electric Revenue, \$58,749 of Water Revenue, and \$507,801 of Sewer Revenue debt issued during this fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,110,000 is significantly below its constitutional debt limit of \$2,604,120. Revenue bonds and loans are not subject to the 5% limit.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joan DeWall, City Clerk, or Greg Fritz, City Administrator at 23 West Elm Avenue, Pocahontas, Iowa.

Basic Financial Statements

City of Pocahontas, Iowa

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

| | | Program Receipts | | |
|------------------------------------|----------------------|---------------------------------------|-----------------|-----------------|
| | | Operating | | |
| | | Grants, Contributions, and Restricted | | |
| | | Charges for Service | | |
| | | Interest | | |
| | <u>Disbursements</u> | <u>Service</u> | <u>Interest</u> | <u>Interest</u> |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 226,559 | 1,965 | 3,850 | - |
| Public works | 452,681 | 172,382 | 164,964 | - |
| Culture and recreation | 174,088 | 32,075 | 21,952 | - |
| Community and economic development | 637,418 | - | 253,470 | - |
| General government | 240,394 | 2,290 | - | - |
| Debt service | 224,455 | - | 32,741 | - |
| Capital projects | 45,882 | - | - | - |
| Total governmental activities | <u>2,001,477</u> | <u>208,712</u> | <u>476,977</u> | <u>-</u> |
| Business type activities: | | | | |
| Water | 435,188 | 355,193 | - | - |
| Electric | 1,606,266 | 1,339,649 | - | - |
| Sewer | 1,144,684 | 267,283 | - | 451,191 |
| Other non-major | 89,393 | 114,760 | - | - |
| Total business type activities | <u>3,275,531</u> | <u>2,076,885</u> | <u>-</u> | <u>451,191</u> |
| Total | <u>\$ 5,277,008</u> | <u>2,285,597</u> | <u>476,977</u> | <u>451,191</u> |

Exhibit A

| <hr/> Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|--|-------------------|--------------------|
| Governmental | Business Type | |
| <u>Activities</u> | <u>Activities</u> | <u>Total</u> |
| (220,744) | - | (220,744) |
| (115,335) | - | (115,335) |
| (120,061) | - | (120,061) |
| (383,948) | - | (383,948) |
| (238,104) | - | (238,104) |
| (191,714) | - | (191,714) |
| <u>(45,882)</u> | <u>-</u> | <u>(45,882)</u> |
| <u>(1,315,788)</u> | <u>-</u> | <u>(1,315,788)</u> |
| - | (79,995) | (79,995) |
| - | (266,617) | (266,617) |
| - | (426,210) | (426,210) |
| <u>-</u> | <u>25,367</u> | <u>25,367</u> |
| <u>-</u> | <u>(747,455)</u> | <u>(747,455)</u> |
| <u>(1,315,788)</u> | <u>(747,455)</u> | <u>(2,063,243)</u> |

(continued)

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

| | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|---|--|-------------------------|-------------------------|
| | Governmental | Business Type | |
| | <u>Activities</u> | <u>Activities</u> | <u>Total</u> |
| General Receipts: | | | |
| Property tax levied for: | | | |
| General purposes | \$ 464,687 | - | 464,687 |
| Tax increment financing | 51,243 | - | 51,243 |
| Debt service | 141,589 | - | 141,589 |
| Local options sales tax | 97,732 | - | 97,732 |
| Unrestricted interest on investments | 29,791 | 24,763 | 54,554 |
| Miscellaneous | 227,481 | 10,984 | 238,465 |
| Bond proceeds | - | 1,317,022 | 1,317,022 |
| Transfers | 507,000 | (507,000) | - |
| Total general receipts and transfers | <u>1,519,523</u> | <u>845,769</u> | <u>2,365,292</u> |
| Change in cash basis net assets | 203,735 | 98,314 | 302,049 |
| Cash basis net assets beginning of year | <u>903,996</u> | <u>1,035,824</u> | <u>1,939,820</u> |
| Cash basis net assets end of year | <u><u>1,107,731</u></u> | <u><u>1,134,138</u></u> | <u><u>2,241,869</u></u> |
| Cash Basis Net Assets | | | |
| Restricted: | | | |
| Employee benefits | 97,405 | - | 97,405 |
| Culture and recreation | 163,110 | - | 163,110 |
| Debt service | 21,724 | 115,670 | 137,394 |
| Other | 385,382 | - | 385,382 |
| Unrestricted | <u>440,110</u> | <u>1,018,468</u> | <u>1,458,578</u> |
| Total cash basis net assets | <u><u>\$ 1,107,731</u></u> | <u><u>1,134,138</u></u> | <u><u>2,241,869</u></u> |

See notes to financial statements.

City of Pocahontas, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

Exhibit B

| | General | Industrial Development Revenue Fund | Other Nonmajor Governmental Funds | Total |
|--|-------------------|--|--|------------------|
| Receipts: | | | | |
| Property tax | \$ 308,848 | - | 283,480 | 592,328 |
| Tax increment financing collections | - | - | 51,243 | 51,243 |
| Other city tax | 8,603 | - | 103,077 | 111,680 |
| Licenses and permits | 2,290 | - | - | 2,290 |
| Use of money and property | 66,974 | 43,975 | 27,419 | 138,368 |
| Intergovernmental | 11,436 | - | 402,409 | 413,845 |
| Charges for service | 198,951 | - | - | 198,951 |
| Special assessments | - | 8,581 | 1,865 | 10,446 |
| Miscellaneous | 55,067 | 56,332 | 67,662 | 179,061 |
| Total receipts | <u>652,169</u> | <u>108,888</u> | <u>937,155</u> | <u>1,698,212</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | 190,700 | - | 35,859 | 226,559 |
| Public works | 209,657 | - | 243,024 | 452,681 |
| Culture and recreation | 152,402 | - | 21,686 | 174,088 |
| Community and economic development | 72,742 | 170,365 | 394,311 | 637,418 |
| General government | 187,908 | - | 52,486 | 240,394 |
| Debt service | - | - | 224,455 | 224,455 |
| Capital projects | - | - | 45,882 | 45,882 |
| Total disbursements | <u>813,409</u> | <u>170,365</u> | <u>1,017,703</u> | <u>2,001,477</u> |
| Deficiency of receipts under disbursements | <u>(161,240)</u> | <u>(61,477)</u> | <u>(80,548)</u> | <u>(303,265)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | 183,000 | 203,000 | 293,077 | 679,077 |
| Operating transfers out | <u>(35,077)</u> | <u>(101,000)</u> | <u>(36,000)</u> | <u>(172,077)</u> |
| Total other financing sources | <u>147,923</u> | <u>102,000</u> | <u>257,077</u> | <u>507,000</u> |
| Net change in cash balances | (13,317) | 40,523 | 176,529 | 203,735 |
| Cash balances beginning of year | <u>193,613</u> | <u>1,839</u> | <u>708,544</u> | <u>903,996</u> |
| Cash balances end of year | <u>\$ 180,296</u> | <u>42,362</u> | <u>885,073</u> | <u>1,107,731</u> |
| Cash Basis Fund Balances | | | | |
| Reserved: | | | | |
| Debt service | \$ - | - | 21,724 | 21,724 |
| Unreserved: | | | | |
| General fund | 180,296 | - | - | 180,296 |
| Special revenue funds | - | 42,362 | 495,897 | 538,259 |
| Capital projects funds | - | - | 217,452 | 217,452 |
| Permanent funds | - | - | 150,000 | 150,000 |
| Total cash basis fund balances | <u>\$ 180,296</u> | <u>42,362</u> | <u>885,073</u> | <u>1,107,731</u> |

See notes to financial statements.

City of Pocahontas, Iowa

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

| | Enterprise Funds | | |
|---|-------------------|------------------|------------------|
| | <u>Water</u> | <u>Electric</u> | <u>Sewer</u> |
| Operating receipts: | | | |
| Use of money and property | \$ 3,709 | - | - |
| Charges for service | 327,115 | 1,271,971 | 263,568 |
| Miscellaneous | 28,078 | 67,678 | 3,715 |
| Total operating receipts | <u>358,902</u> | <u>1,339,649</u> | <u>267,283</u> |
| Operating disbursements: | | | |
| Business type activities | <u>414,910</u> | <u>1,483,156</u> | <u>1,089,719</u> |
| Total operating disbursements | <u>414,910</u> | <u>1,483,156</u> | <u>1,089,719</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>(56,008)</u> | <u>(143,507)</u> | <u>(822,436)</u> |
| Non-operating receipts (disbursements): | | | |
| Bond proceeds | 84,221 | 725,000 | 507,801 |
| Interest on investments | 2,016 | 21,041 | 1,706 |
| Intergovernmental | - | - | 451,191 |
| Debt service | <u>(20,278)</u> | <u>(123,110)</u> | <u>(54,965)</u> |
| Total non-operating receipts (disbursements) | <u>65,959</u> | <u>622,931</u> | <u>905,733</u> |
| Excesss of receipts over disbursements | 9,951 | 479,424 | 83,297 |
| Operating transfers out | <u>(37,000)</u> | <u>(385,500)</u> | <u>(81,500)</u> |
| Net change in cash balances | (27,049) | 93,924 | 1,797 |
| Cash balances beginning of year | <u>432,532</u> | <u>454,216</u> | <u>135,513</u> |
| Cash balances end of year | <u>\$ 405,483</u> | <u>548,140</u> | <u>137,310</u> |
| Cash Basis Fund Balances | | | |
| Reserved for debt service | \$ - | 115,670 | - |
| Reserved for capital improvements | 166,802 | 150,010 | 70,192 |
| Reserved for capital equipment | 6,045 | 37,998 | 52,309 |
| Unreserved | <u>232,636</u> | <u>244,462</u> | <u>14,809</u> |
| Total cash basis fund balances | <u>\$ 405,483</u> | <u>548,140</u> | <u>137,310</u> |

Exhibit C

| Other <u>Nonmajor</u> | <u>Total</u> |
|--------------------------|------------------|
| 7,275 | 10,984 |
| 114,760 | 1,977,414 |
| - | 99,471 |
| <u>122,035</u> | <u>2,087,869</u> |
| | |
| <u>89,393</u> | <u>3,077,178</u> |
| <u>89,393</u> | <u>3,077,178</u> |
| | |
| <u>32,642</u> | <u>(989,309)</u> |
| | |
| - | 1,317,022 |
| - | 24,763 |
| - | 451,191 |
| - | (198,353) |
| <u>-</u> | <u>1,594,623</u> |
| | |
| 32,642 | 605,314 |
| <u>(3,000)</u> | <u>(507,000)</u> |
| | |
| 29,642 | 98,314 |
| <u>13,563</u> | <u>1,035,824</u> |
| | |
| <u>43,205</u> | <u>1,134,138</u> |
| | |
| - | 115,670 |
| - | 387,004 |
| - | 96,352 |
| <u>43,205</u> | <u>535,112</u> |
| <u>43,205</u> | <u>1,134,138</u> |

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Pocahontas is a political subdivision of the State of Iowa located in Pocahontas County. It was first incorporated in 1870 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Pocahontas has included only the primary government of the City of Pocahontas, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Pocahontas County Emergency Management Commission and Pocahontas County Joint E911 Service Board.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Industrial Development Fund is used to account for various economic development projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

The City of Pocahontas maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required

Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, community and economic development, and business type activities functions.

(2) Cash

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments at June 30, 2006. During the year, the City deposited excess funds in certificates of deposit.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

| Year Ending June 30, | General Obligation Bonds | | Revenue Bonds | | Total | |
|-------------------------|-----------------------------|----------------|------------------|----------------|------------------|----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | \$ 180,000 | 43,467 | 195,000 | 80,437 | 375,000 | 123,904 |
| 2008 | 175,000 | 37,168 | 203,000 | 73,736 | 378,000 | 110,904 |
| 2009 | 165,000 | 30,605 | 212,000 | 66,612 | 377,000 | 97,217 |
| 2010 | 175,000 | 24,005 | 220,000 | 58,969 | 395,000 | 82,974 |
| 2011 | 180,000 | 16,918 | 229,000 | 50,869 | 409,000 | 67,787 |
| 2012-2016 | 225,000 | 16,087 | 727,801 | 152,555 | 952,801 | 168,642 |
| 2017-2021 | --- | --- | 455,000 | 66,980 | 455,000 | 66,980 |
| 2022-2023 | --- | --- | 168,331 | 7,130 | 168,331 | 7,130 |
| Total | <u>\$ 1,100,000</u> | <u>168,250</u> | <u>2,410,132</u> | <u>557,288</u> | <u>3,510,132</u> | <u>725,538</u> |

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue note sinking account within the enterprise funds for the purpose of making the note principal and interest payments when due.
- (c) There shall be an electric reserve fund with a minimum balance of \$90,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

- (d) There shall be an electric improvement fund with a minimum balance of \$50,000 set up upon issuance of the notes. If the balance is reduced below those amounts, funds shall be deposited to bring it back to the minimum required level.
- (e) The Water Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.
- (f) The Sewer Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond due in any one year.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS),

which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$39,264, \$37,593 and \$34,588, respectively, equal to the required contributions for each year.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|--------------------|
| Vacation and comp time | \$ 40,000 ===== |

This liability has been computed based on rates of pay in effect at June 30, 2006.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

| <u>Transfer To</u> | <u>Transfer From</u> | <u>Amount</u> |
|------------------------|----------------------|----------------|
| General | Enterprise: | |
| | Water | \$ 35,000 |
| | Sewer | 38,000 |
| | Electric | 107,000 |
| | Internet | <u>3,000</u> |
| | | <u>183,000</u> |
| Capital Projects: | | |
| Capital Improvements | General | 5,000 |
| | Special Revenue: | |
| | Road Use | <u>6,000</u> |
| | | <u>11,000</u> |
| Capital Equipment | General | 30,077 |
| | Enterprise: | |
| | Water | 1,000 |
| | Sewer | 500 |
| | Electric | 1,500 |
| | Special Revenue: | |
| | Road Use | <u>30,000</u> |
| | | <u>63,077</u> |
| Special Revenue: | | |
| Industrial Development | Enterprise: | |
| | Water | 1,000 |
| | Electric | <u>202,000</u> |
| | | <u>203,000</u> |

City of Pocahontas, Iowa
Notes to Financial Statements

June 30, 2006

| | | |
|--|--|-------------------|
| Debt Service | Enterprise: Sewer | <u>43,000</u> |
| Special Revenue: Economic Development Revolving Fund | Special Revenue: Industrial Development | <u>101,000</u> |
| Special Revenue: Housing Grant | Enterprise: Electric | <u>75,000</u> |
| Total | | <u>\$ 679,077</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$23,959 during the year ended June 30, 2006.

(8) Risk Management

The City of Pocahontas is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Pocahontas, Iowa

Notes to Financial Statements

June 30, 2006

(9) Commitments

As of June 30, 2006, the City had the following commitments with respect to unfinished capital projects:

| <u>Capital Project</u> | <u>Remaining Commitment</u> |
|----------------------------|---------------------------------|
| Wastewater Treatment Plant | \$ 90,984 |
| 2006 Street Project | 83,950 |

The City will pay for the 2006 street project out of its road use and local option monies and will finance the wastewater treatment improvements from issuance of bonds and a CDBG grant.

Required Supplementary Information

City of Pocahontas, Iowa

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

| | Governmental Funds <u>Actual</u> | Proprietary Funds <u>Actual</u> |
|---|--|---------------------------------------|
| Receipts: | | |
| Property tax | \$ 592,328 | - |
| Tax increment financing collections | 51,243 | - |
| Other city tax | 111,680 | - |
| Licenses and permits | 2,290 | - |
| Use of money and property | 138,368 | 35,747 |
| Intergovernmental | 413,845 | 451,191 |
| Charges for service | 198,951 | 1,977,414 |
| Special assessments | 10,446 | - |
| Miscellaneous | 179,061 | 99,471 |
| Total receipts | <u>1,698,212</u> | <u>2,563,823</u> |
| Disbursements: | | |
| Public safety | 226,559 | - |
| Public works | 452,681 | - |
| Culture and recreation | 174,088 | - |
| Community and economic development | 637,418 | - |
| General government | 240,394 | - |
| Debt service | 224,455 | - |
| Capital projects | 45,882 | - |
| Business type activities | - | 3,275,531 |
| Total disbursements | <u>2,001,477</u> | <u>3,275,531</u> |
| Excess (deficiency) of receipts over (under) disbursements | (303,265) | (711,708) |
| Other financing sources (uses), net | <u>507,000</u> | <u>810,022</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 203,735 | 98,314 |
| Balances beginning of year | <u>903,996</u> | <u>1,035,824</u> |
| Balances end of year | <u>\$ 1,107,731</u> | <u>1,134,138</u> |
| See accompanying independent auditor's report. | | |

| <u>Total</u> | <u>Budgeted Amounts</u> | | Final to |
|------------------|-------------------------|------------------|--------------------------|
| | <u>Original</u> | <u>Final</u> | Total <u>Variance</u> |
| 592,328 | 592,749 | 592,749 | (421) |
| 51,243 | 56,425 | 56,425 | (5,182) |
| 111,680 | 100,053 | 102,053 | 9,627 |
| 2,290 | 2,175 | 2,175 | 115 |
| 174,115 | 75,250 | 75,750 | 98,365 |
| 865,036 | 1,799,475 | 1,809,070 | (944,034) |
| 2,176,365 | 2,300,040 | 2,316,040 | (139,675) |
| 10,446 | - | - | 10,446 |
| 278,532 | 59,008 | 76,008 | 202,524 |
| <u>4,262,035</u> | <u>4,985,175</u> | <u>5,030,270</u> | <u>(768,235)</u> |
| 226,559 | 239,950 | 219,950 | (6,609) |
| 452,681 | 494,280 | 511,180 | 58,499 |
| 174,088 | 185,567 | 206,867 | 32,779 |
| 637,418 | 219,561 | 457,561 | (179,857) |
| 240,394 | 246,276 | 251,776 | 11,382 |
| 224,455 | 224,455 | 224,455 | - |
| 45,882 | 1,556,500 | 1,987,250 | 1,941,368 |
| 3,275,531 | 1,805,420 | 2,062,420 | (1,213,111) |
| <u>5,277,008</u> | <u>4,972,009</u> | <u>5,921,459</u> | <u>644,451</u> |
| (1,014,973) | 13,166 | (891,189) | (123,784) |
| <u>1,317,022</u> | <u>-</u> | <u>1,769,000</u> | <u>(451,978)</u> |
| 302,049 | 13,166 | 877,811 | (575,762) |
| <u>1,939,820</u> | <u>2,246,721</u> | <u>2,246,721</u> | <u>(306,901)</u> |
| <u>2,241,869</u> | <u>2,259,887</u> | <u>3,124,532</u> | <u>(882,663)</u> |

City of Pocahontas, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except internal service funds and fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$949,450, increased budgeted revenues by \$45,095, and other financing sources by \$1,769,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, community and economic development, and business type activities functions.

Other Supplementary Information

City of Pocahontas, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

| | Special Revenue | | | |
|---|--------------------|-----------------------------|--|---------------------------------------|
| | Road <u>Use</u> | Employee <u>Benefits</u> | Local Option Sales <u>Tax</u> | Tax Increment <u>Fund (TIF)</u> |
| Receipts: | | | | |
| Property tax | \$ - | 144,438 | - | - |
| Tax increment financing collections | - | - | - | 51,243 |
| Other city tax | - | 2,798 | 97,732 | - |
| Use of money and property | - | - | - | - |
| Intergovernmental | 164,964 | - | - | - |
| Special assessments | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total receipts | <u>164,964</u> | <u>147,236</u> | <u>97,732</u> | <u>51,243</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | - | 35,859 | - | - |
| Public works | 98,968 | 32,403 | 111,653 | - |
| Culture and recreation | - | 21,686 | - | - |
| Community and economic development | - | 12,231 | - | 60,205 |
| General government | - | 52,486 | - | - |
| Debt service | - | - | - | - |
| Capital projects | - | - | - | - |
| Total disbursements | <u>98,968</u> | <u>154,665</u> | <u>111,653</u> | <u>60,205</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>65,996</u> | <u>(7,429)</u> | <u>(13,921)</u> | <u>(8,962)</u> |

Schedule 1

| | | | | Debt Service | Capital Projects | |
|--------------------------------|--------------------------|----------------------------------|--|-------------------------|--------------------------------|------------------------------|
| <u>Revolving Loan Fund</u> | <u>Housing Grant</u> | <u>"Irma Elbert Bequest"</u> | <u>"Charlotte Lenore Zech Bequest"</u> | <u>Debt Service</u> | <u>Capital Improvement</u> | <u>Capital Equipment</u> |
| - | - | - | - | 139,042 | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | 2,547 | - | - |
| - | - | 2,400 | - | 19,400 | 5,619 | - |
| 99,000 | 134,595 | - | - | - | - | 3,850 |
| - | - | - | - | - | 1,865 | - |
| 19,875 | - | 2,373 | - | 32,741 | 8,527 | 4,146 |
| <u>118,875</u> | <u>134,595</u> | <u>4,773</u> | <u>-</u> | <u>193,730</u> | <u>16,011</u> | <u>7,996</u> |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 200,000 | 121,875 | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | 224,455 | - | - |
| - | - | - | - | - | 29,854 | 16,028 |
| <u>200,000</u> | <u>121,875</u> | <u>-</u> | <u>-</u> | <u>224,455</u> | <u>29,854</u> | <u>16,028</u> |
| <u>(81,125)</u> | <u>12,720</u> | <u>4,773</u> | <u>-</u> | <u>(30,725)</u> | <u>(13,843)</u> | <u>(8,032)</u> |

(continued)

City of Pocahonats, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

| | Special Revenue | | | |
|--------------------------------------|--------------------|-----------------------------|--|---------------------------------------|
| | Road <u>Use</u> | Employee <u>Benefits</u> | Local Option Sales <u>Tax</u> | Tax Increment <u>Fund (TIF)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers out | (36,000) | - | - | - |
| Operating transfers in | - | - | - | - |
| Total other financing sources (uses) | <u>(36,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in cash balances | 29,996 | (7,429) | (13,921) | (8,962) |
| Cash balances beginning of year | <u>164,104</u> | <u>104,834</u> | <u>129,284</u> | <u>35,284</u> |
| Cash balances end of year | <u>\$ 194,100</u> | <u>97,405</u> | <u>115,363</u> | <u>26,322</u> |
| Cash Basis Fund Balances | | | | |
| Unreserved: | | | | |
| Special revenue funds | 194,100 | 97,405 | 115,363 | 26,322 |
| Capital project funds | - | - | - | - |
| Permanent funds | - | - | - | - |
| Reserved: | | | | |
| Debt service | - | - | - | - |
| Total cash basis fund balances | <u>\$ 194,100</u> | <u>97,405</u> | <u>115,363</u> | <u>26,322</u> |

See accompanying independent auditor's report.

| | | | | Debt Service | Capital Projects | |
|--------------------------------|--------------------------|----------------------------------|--|-------------------------|--------------------------------|------------------------------|
| <u>Revolving Loan Fund</u> | <u>Housing Grant</u> | <u>"Irma Elbert Bequest"</u> | <u>"Charlotte Lenore Zech Bequest"</u> | <u>Debt Service</u> | <u>Capital Improvement</u> | <u>Capital Equipment</u> |
| - | - | - | - | - | - | - |
| 101,000 | 75,000 | - | - | 43,000 | 11,000 | 63,077 |
| 101,000 | 75,000 | - | - | 43,000 | 11,000 | 63,077 |
| 19,875 | 87,720 | 4,773 | - | 12,275 | (2,843) | 55,045 |
| - | (57,998) | 4,083 | 4,254 | 9,449 | 40,242 | 125,008 |
| 19,875 | 29,722 | 8,856 | 4,254 | 21,724 | 37,399 | 180,053 |
| 19,875 | 29,722 | 8,856 | 4,254 | - | - | - |
| - | - | - | - | - | 37,399 | 180,053 |
| - | - | - | - | - | - | - |
| - | - | - | - | 21,724 | - | - |
| 19,875 | 29,722 | 8,856 | 4,254 | 21,724 | 37,399 | 180,053 |

(continued)

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

| | Permanent | | | |
|---|--|---|----------------------------------|--------------|
| | "Jean Wallace Perry <u>Memorial</u> " | "Charlotte Lenore Zech <u>Bequest</u> " | "Irma Elbert <u>Bequest</u> " | <u>Total</u> |
| Receipts: | | | | |
| Property tax | \$ - | - | - | 283,480 |
| Tax increment financing collections | - | - | - | 51,243 |
| Other city tax | - | - | - | 103,077 |
| Use of money and property | - | - | - | 27,419 |
| Intergovernmental | - | - | - | 402,409 |
| Special assessments | - | - | - | 1,865 |
| Miscellaneous | - | - | - | 67,662 |
| Total receipts | - | - | - | 937,155 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | - | - | - | 35,859 |
| Public works | - | - | - | 243,024 |
| Culture and recreation | - | - | - | 21,686 |
| Community and economic development | - | - | - | 394,311 |
| General government | - | - | - | 52,486 |
| Debt service | - | - | - | 224,455 |
| Capital projects | - | - | - | 45,882 |
| Total disbursements | - | - | - | 1,017,703 |
| Excess (deficiency) of receipts over (under) disbursements | - | - | - | (80,548) |

(continued)

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

| | Permanent | | | |
|--------------------------------------|---|--|---------------------------------|----------------|
| | "Jean Wallace Perry <u>Memorial"</u> | "Charlotte Lenore Zech <u>Bequest"</u> | "Irma Elbert <u>Bequest"</u> | <u>Total</u> |
| Other financing sources (uses): | | | | |
| Operating transfers out | - | - | - | (36,000) |
| Operating transfers in | - | - | - | 293,077 |
| Total other financing sources (uses) | - | - | - | 257,077 |
| Net change in cash balances | - | - | - | 176,529 |
| Cash balances beginning of year | 2,500 | 87,500 | 60,000 | 708,544 |
| Cash balances end of year | <u>\$ 2,500</u> | <u>87,500</u> | <u>60,000</u> | <u>885,073</u> |
| Cash Basis Fund Balances | | | | |
| Unreserved: | | | | |
| Special revenue funds | - | - | - | 495,897 |
| Capital project funds | - | - | - | 217,452 |
| Permanent funds | 2,500 | 87,500 | 60,000 | 150,000 |
| Reserved: | | | | |
| Debt service | - | - | - | 21,724 |
| Total cash basis fund balances | <u>\$ 2,500</u> | <u>87,500</u> | <u>60,000</u> | <u>885,073</u> |

See accompanying independent auditor's report.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2006

| | Enterprise Funds | | | |
|--|------------------|---------------|-----------------|----------------|
| | Meter | | | |
| | <u>Deposits</u> | <u>Clinic</u> | <u>Internet</u> | <u>Total</u> |
| Operating receipts: | | | | |
| Use of money and property | \$ - | 7,275 | - | 7,275 |
| Charges for service | 9,633 | - | 105,127 | 114,760 |
| Total operating receipts | <u>9,633</u> | <u>7,275</u> | <u>105,127</u> | <u>122,035</u> |
| Operating disbursements: | | | | |
| Business type activities | <u>6,178</u> | <u>1,610</u> | <u>81,605</u> | <u>89,393</u> |
| Total operating disbursements | <u>6,178</u> | <u>1,610</u> | <u>81,605</u> | <u>89,393</u> |
| Excess of operating receipts over operating disbursements | <u>3,455</u> | <u>5,665</u> | <u>23,522</u> | <u>32,642</u> |
| Operating transfers in (out) | <u>-</u> | <u>-</u> | <u>(3,000)</u> | <u>(3,000)</u> |
| Net change in cash balances | 3,455 | 5,665 | 20,522 | 29,642 |
| Cash balances beginning of year | <u>9,064</u> | <u>475</u> | <u>4,024</u> | <u>13,563</u> |
| Cash balances end of year | <u>\$ 12,519</u> | <u>6,140</u> | <u>24,546</u> | <u>43,205</u> |
| Cash Basis Fund Balances | | | | |
| Unreserved | <u>\$ 12,519</u> | <u>6,140</u> | <u>24,546</u> | <u>43,205</u> |
| Total cash basis fund balances | <u>\$ 12,519</u> | <u>6,140</u> | <u>24,546</u> | <u>43,205</u> |

See notes to financial statements.

City of Pocahontas, Iowa

Schedule of Indebtedness

Year ended June 30, 2006

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|--|--------------------------|---------------------------|---|
| General obligation bonds: G.O. refunding bonds Series 2001 | Nov 1, 2001 | 3.00-4.40% | \$ 1,715,000 |
| Revenue bonds: | | | |
| Electric | Apr 15, 2002 | 2.75-4.10% | \$ 900,000 |
| Water | Apr 6, 2004 | 3.00% | 1,418,582 |
| Sewer | Jul 7, 2004 | 3.00% | 12,000 |
| Promissory note: | | | |
| Electric | Feb 8, 2006 | 4.75% | \$ 1,000,000 |

See accompanying independent auditor's report.

Schedule 3

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| <u>\$ 1,275,000</u> | <u>-</u> | <u>175,000</u> | <u>1,100,000</u> | <u>49,155</u> | <u>-</u> |
| 665,000 | - | 85,000 | 580,000 | 28,720 | - |
| 1,358,582 | 58,749 | 62,000 | 1,355,331 | 41,538 | - |
| <u>12,000</u> | <u>507,801</u> | <u>45,000</u> | <u>474,801</u> | <u>6,965</u> | <u>-</u> |
| <u>\$ 2,035,582</u> | <u>566,550</u> | <u>192,000</u> | <u>2,410,132</u> | <u>77,223</u> | <u>-</u> |
| <u>\$ -</u> | <u>725,000</u> | <u>-</u> | <u>725,000</u> | <u>9,090</u> | <u>-</u> |

Bond Maturities- General Obligation Bonds

June 30, 2006

| Year Ending <u>June 30,</u> | General Obligation | |
|--------------------------------|-----------------------------|---------------------|
| | Refunding Bonds Series 2001 | |
| | Issued November 1, 2001 | |
| | Interest | |
| | <u>Rates</u> | <u>Amount</u> |
| 2007 | 3.50 % | \$ 180,000 |
| 2008 | 3.75 | 175,000 |
| 2009 | 4.00 | 165,000 |
| 2010 | 4.05 | 175,000 |
| 2011 | 4.10 | 180,000 |
| 2012 | 4.15 | 125,000 |
| 2013 | 4.30 | 50,000 |
| 2014 | 4.40 | 50,000 |
| Total | | <u>\$ 1,100,000</u> |

See accompanying independent auditor's report.

Bond Maturities - Revenue Bonds

June 30, 2006

| | | Electric Revenue Bonds | | | Sewer Revenue Bonds | | |
|-----------------|--------------|------------------------|---------|--|---------------------|---------------|---------|
| | | Series 2002 | | | Series 2004 | | |
| | | Issued April 15, 2002 | | | Issued July 7, 2004 | | |
| Year Ending | Interest | | | | Interest | | |
| <u>June 30,</u> | <u>Rates</u> | <u>Amount</u> | | | <u>Rates</u> | <u>Amount</u> | |
| 2007 | 4.00 % | \$ | 85,000 | | 3.00 % | \$ | 46,000 |
| 2008 | 4.15 | | 90,000 | | 3.00 | | 47,000 |
| 2009 | 4.35 | | 95,000 | | 3.00 | | 49,000 |
| 2010 | 4.50 | | 100,000 | | 3.00 | | 50,000 |
| 2011 | 4.60 | | 105,000 | | 3.00 | | 52,000 |
| 2012 | 4.70 | | 105,000 | | 3.00 | | 53,000 |
| 2013 | | | - | | 3.00 | | 55,000 |
| 2014 | | | - | | 3.00 | | 57,000 |
| 2015 | | | - | | 3.00 | | 58,000 |
| 2016 | | | - | | 3.00 | | 7,801 |
| Total | | \$ | 580,000 | | | \$ | 474,801 |

| | | Water Revenue Bonds | | | | | |
|-----------------|--------------|-----------------------|-----------|--|--------------|-----------|--|
| | | Series 2004 | | | | | |
| | | Issued April 23, 2004 | | | | | |
| Year Ending | Interest | | | | | | |
| <u>June 30,</u> | <u>Rates</u> | <u>Amount</u> | | | <u>Total</u> | | |
| 2007 | 3.00 % | \$ | 64,000 | | | 195,000 | |
| 2008 | 3.00 | | 66,000 | | | 203,000 | |
| 2009 | 3.00 | | 68,000 | | | 212,000 | |
| 2010 | 3.00 | | 70,000 | | | 220,000 | |
| 2011 | 3.00 | | 72,000 | | | 229,000 | |
| 2012 | 3.00 | | 74,000 | | | 232,000 | |
| 2013 | 3.00 | | 76,000 | | | 131,000 | |
| 2014 | 3.00 | | 78,000 | | | 135,000 | |
| 2015 | 3.00 | | 81,000 | | | 139,000 | |
| 2016 | 3.00 | | 83,000 | | | 90,801 | |
| 2017 | 3.00 | | 86,000 | | | 86,000 | |
| 2018 | 3.00 | | 88,000 | | | 88,000 | |
| 2019 | 3.00 | | 91,000 | | | 91,000 | |
| 2020 | 3.00 | | 94,000 | | | 94,000 | |
| 2021 | 3.00 | | 96,000 | | | 96,000 | |
| 2022 | 3.00 | | 99,000 | | | 99,000 | |
| 2023 | 3.00 | | 69,331 | | | 69,331 | |
| Total | | \$ | 1,355,331 | | | 2,410,132 | |

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Years

| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|-------------------------------------|---------------------|------------------|------------------|------------------|
| Receipts: | | | | |
| Property tax | \$ 592,328 | 569,770 | 582,771 | 555,410 |
| Tax increment financing collections | 51,243 | 16,831 | 5,506 | - |
| Other city tax | 111,680 | 173,693 | 57,090 | 9,604 |
| Licenses and permits | 2,290 | 2,005 | 5,978 | 2,065 |
| Use of money and property | 138,368 | 70,116 | 79,805 | 79,939 |
| Intergovernmental | 413,845 | 349,556 | 217,340 | 216,267 |
| Charges for service | 198,951 | 208,711 | 197,975 | 193,299 |
| Special assessments | 10,446 | 13,873 | 23,054 | 4,699 |
| Miscellaneous | <u>179,061</u> | <u>80,092</u> | <u>57,168</u> | <u>86,519</u> |
| Total | <u>\$ 1,698,212</u> | <u>1,484,647</u> | <u>1,226,687</u> | <u>1,147,802</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 226,559 | 245,152 | 235,853 | 249,267 |
| Public works | 452,681 | 345,215 | 330,161 | 368,997 |
| Culture and recreation | 174,088 | 188,266 | 172,439 | 151,623 |
| Community and economic development | 637,418 | 350,567 | 537,037 | 15,591 |
| General government | 240,394 | 236,556 | 215,623 | 226,590 |
| Debt service | 224,455 | 219,784 | 225,130 | 217,100 |
| Capital projects | <u>45,882</u> | <u>286,398</u> | <u>34,135</u> | <u>88,181</u> |
| Total | <u>\$ 2,001,477</u> | <u>1,871,938</u> | <u>1,750,378</u> | <u>1,317,349</u> |

See accompanying independent auditor's report.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

| <u>Grantor/Program</u> | <u>CFDA Number</u> | <u>Agency or Pass-Through Number</u> | <u>Program Expenditures</u> |
|---|------------------------|--|---------------------------------|
| Direct: | | | |
| Environmental Protection Agency | | | |
| USDA Rural Development | 10.769 | --- | \$ <u>99,000</u> |
| Indirect: | | | |
| U.S. Department of Housing and Urban Development: | | | |
| Iowa Department of Economic Development: | | | |
| Community Development Block Grant/State's Program | 14.228 | 03-HSG-093 | 107,233 |
| Community Development Block Grant/State's Program | 14.228 | 03-WS-072 | 25,472 |
| Community Development Block Grant/State's Program | 14.228 | 03-WS-077 | 451,191 |
| Community Development Block Grant/State's Program | 14.228 | 06-HSG-021 | <u>11,460</u> |
| | | | <u>595,356</u> |
| U.S. Environmental Protection Agency: | | | |
| Iowa Department of Natural Resources | | | |
| State Revolving Loan Fund | 66.458 | --- | <u>274,702</u> |
| Total | | | <u>\$ 969,058</u> |

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pocahontas and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pocahontas, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the primary government's basic financial statements listed in the table of contents and have issued our report thereon dated July 14, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pocahontas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Pocahontas' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial

statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 and II-B-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pocahontas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pocahontas and other parties to whom the City of Pocahontas may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pocahontas during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

July 14, 2006

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Pocahontas, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. City of Pocahontas' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Pocahontas' management. Our responsibility is to express an opinion on the City of Pocahontas' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pocahontas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Pocahontas' compliance with those requirements.

In our opinion, the City of Pocahontas complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Pocahontas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Pocahontas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we considered to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pocahontas and other parties to whom the City of Pocahontas may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

July 14, 2006

City of Pocahontas, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No reportable condition in internal control over a major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA number 14.228 – Community Development Block Grants/ State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pocahontas did not qualify as a low-risk auditee.

City of Pocahontas, Iowa
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, posting of cash receipts to the cash receipts journal, and the preparation of deposit slips for utility billing are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Based upon the size of our office staff, duties are segregated to the greatest extent possible.

Conclusion - The City should utilize administrative personnel to provide additional control through a review of financial transactions and reports.

II-B-06 Segregation of Duties - Community Center - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same person writes checks, signs checks, posts receipts and disbursements and reconciles the bank account. Also prenumbered receipts are not utilized.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the Community Center Board review its control procedures to obtain the maximum internal control possible under the circumstances. Prenumbered receipts should be utilized to help insure proper control over cash receipts.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response - We will investigate possible alternatives.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-06 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

IV-B-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, community and economic development, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should be amended in sufficient amounts before the disbursements exceed the budget.

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

IV-C-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-D-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---|------------------------------------|--------------------------------------|
| Tom Hoopingardner, Employee, Owner of H & H Tree Service | Tree trimming | \$ 225 |
| Brooks Taylor – Council Member Editor of Record Democrat | Newspaper printings | 5,293 |
| Gus Holzmuehler – Council Member Owner of Pocahontas Ford | Auto Repairs | 16,610 |
| Kent Wood – Council Member 14% Owner of Wood’s Supermarket | | 996 |
| Ray Kripps – Airport Commissioner Owner of Ray Kripps Builders | | <u>835</u> <u>23,959</u> ===== |

City of Pocahontas, Iowa

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with H & H Tree Service, Wood's Supermarket and Ray Kripps Builders, do not appear to represent conflicts of interest since the total transactions with each were less than \$2,500 during the fiscal year. The transaction with the Pocahontas Ford does not appear to represent a conflict of interest since it was entered into through competitive bidding. The transaction with the newspaper does not appear to represent a conflict of interest since a resolution was passed naming The Record Democrat as the official newspaper. Taylor didn't vote on this resolution.

IV-F-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

IV-G-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investments provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-06 Revenue Bonds – The City has complied with the revenue bond and note resolutions.

IV-J-06 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.